

T-296

REPORT ON DEFICIENCIES IN ACCOUNTING AND INTERNAL
CONTROLS AND PROCEDURES NOTED DURING AUDIT OF
MINNEAPOLIS AREA
BUREAU OF INDIAN AFFAIRS
DEPARTMENT OF THE INTERIOR
FISCAL YEAR 1953

GENERAL ACCOUNTING OFFICE
WASHINGTON 25

OF AUDITS

JAN 15 1954

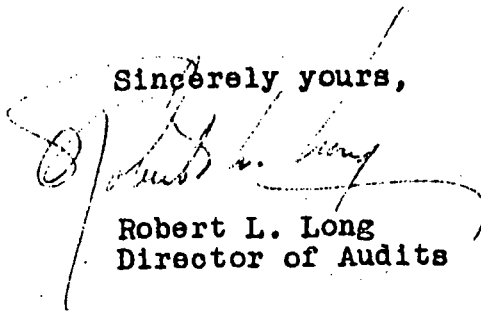
Mr. Glenn L. Emmons, Commissioner,
Bureau of Indian Affairs,
Department of the Interior,
Washington 25, D.C.

Dear Mr. Emmons:

The Division of Audits, General Accounting Office, has made an audit at the Minneapolis Area Office and certain agency offices under its jurisdiction for the fiscal year 1953. During the audit we reviewed the organization and procedures of the offices and our observations on weaknesses in accounting, internal controls, and procedures are included in the accompanying report.

We wish to acknowledge the cooperation given our representatives during the audit. We will be pleased to discuss these comments in greater detail with you or members of your organization.

Sincerely yours,



Robert L. Long
Director of Audits

C o n t e n t s

HEALTH AND EDUCATION
LAND
TRIBAL ORGANIZATION
OTHER OBSERVATIONS
ACCOUNTING

Page

1

7

7

8

11

LAND

4. Backlog in sale of land

The land supervisor at the area office in Minneapolis estimated the backlog in processing requests for the sale of allotted lands in the area to be approximately ten man-years. Reduction of this backlog could be made by transferring certain activities on land sales to the agency superintendents, particularly at the Consolidated Chippewa Agency and Great Lakes Agency, where the requests for sales of land are heavy. Obtaining data on land holdings of deceased Indians and probable heirs, making land appraisals for sales, advertising of land for sale, etc., could be accomplished at the agencies, with a subsequent review of the work by the agency being made by area office personnel. In order to reduce the excessive backlog of requests for sales of allotted lands, we recommend that the Bureau consider the feasibility of assigning additional responsibilities in this matter to agency superintendents.

TRIBAL ORGANIZATIONS

5. Audits of tribal organizations,

Our review of selected tribal charters and bylaws disclosed that financial records of many of the tribal organizations are subject to periodic audits by certified public accountants. The audit of the Chippewa Tribe at Cass Lake, Minnesota, for the period September 1948 to December 1952 was made by Mr. E. V. Peterson, C.P.A., of Brainerd, Minnesota. ~~This~~

~~report disclosed many deficiencies and irregularities, including about \$5,000 that could not be accounted for. We were informed by area office employees that inadequate management policies exist in other tribal organizations, but the tribal officers have been reluctant to approve the audit and examination of their records.~~

In view of the provisions for independent audit contained in the bylaws and the trust responsibility of the Bureau for the management of Indian property and other resources, we recommend that the Bureau increase its efforts to explain the advantages of independent audits to the various tribal organizations and to prevail upon such organizations to permit periodic audits by independent public accountants.

OTHER OBSERVATIONS

6. Inadequate control over uncollected probate fees

The review of probate records at the Consolidated Chippewa Agency revealed a weakness in billing and recording of probate fees. A copy of the notice of hearing is being used for billing purposes, and it is the only permanent record retained which shows such fees. The accountability for fees is not established until the fees are collected, and the agency employees were unable to ascertain the unpaid fees without a complete analysis of all estate or probate files.

The Indian Affairs Manual (vol. IV, part 2, ch. 6, sec. 608.02 and 608.04) prescribes procedures for billing and

ACCOUNTING9. Deplorable condition of accounting records

During visits at several agencies we observed that the administration of the accounting function is exceedingly lax and deficient.

At the Red Lake Agency we attempted to reconcile the balances covering tribal funds shown by the accounts current of the regional disbursing officers with the balances in the general ledger accounts at the agency for selected months in fiscal years 1952 and 1953. Because of the deplorable condition of the accounting records, however, such reconciliations were not possible. We were advised by agency employees that attempts had been made to reconcile the balances in the accounts current for tribal funds immediately following the physical transfer of the records from the Minneapolis area office in 1951, but these efforts had not been successful. Since that time no attempt has been made by the Bureau to reconcile the agency records with the accounts current of the regional disbursing officers.

Our efforts to reconcile the balances in the accounts current at Red Lake disclosed numerous errors, examples of which follow:

- a. Unavailable receipts were recorded as available receipts, thereby overstating the amount of funds actually available for expenditure on the agency books.
- b. Payments were not included in their proper classification in the summarization of schedules of disbursements, thereby overstating one appropriation and understating another.

- c. Schedules of disbursements were included more than once in the summaries, thereby overstating the totals.
- d. Transactions were recorded in months other than the month in which the transactions were consummated, indicating that accounting documents are not processed and recorded promptly.

~~The unreconciled difference between the balance for tribal funds in the general ledger account and the account current of the regional disbursing officer at June 30, 1953, was \$8,645.~~

At the Menominee Agency the reconciliation of the balances in the accounts current of the regional disbursing officer with the balances in the general ledger accounts at the agency was delinquent by seven months.

Subsidiary ledgers for the individual Indian money accounts are out of balance with the general ledger control accounts and have not been reconciled with the control accounts for eleven years. The administrative officer at the agency excused this failure by the statement that attempts were being made to rectify the situation as time permitted; no evidence exists, however, to indicate that any progress had been or will ever be made.

The files at both the Menominee and Red Lake Agencies are inadequately maintained. The various accounting records are not retained together, making it difficult to trace differences, and documents have been lost or misplaced.

One of the most serious weaknesses observed was the indifferent attitude of responsible employees when we discussed these points with them. This was particularly true at the

Menominee Agency. Some employees at these agencies did not appear to have sufficient knowledge of their functions to enable them to properly carry out their required duties.

We recommend that prompt action be taken to correct these conditions and that the provisions in the Indian Affairs Manual (vol. IV, part II, ch. 9, sec. 902.03 and .04) be enforced, including the reconciliation and certification of the accounts current of regional disbursing officers and special disbursing agents not later than 20 days and 10 days, respectively, after receipt of such statements. Moreover, controls should be established to preclude the possibility of similar situations arising in the future.

10. Schedule of collections--unnecessarily detailed explanations

During our review at the Red Lake Agency, we noted that the schedules of collection (S.F. 1044) included considerable unnecessary information. The schedules of collections were itemized to show the check numbers, the name of the bank on which the checks were drawn, date checks were received, etc. Because virtually all collections are made by field collector agents and this information is shown on the field receipts, the data is considered to be unnecessary on the schedules of collections. In order to conserve clerical time, we recommend that listing of detail data on schedules of collection be discontinued immediately where such data is available on field receipts.

11. Delinquent operating and cost statements

Effective October 1, 1951, the Aberdeen area office was designated as the accounting office for the Minneapolis area office and all agency offices under its jurisdiction, except for trust funds and properties of the Red Lake and Menominee tribes. Beginning on September 1, 1952, the cost accounting section at Aberdeen was to prepare and distribute operating and cost statements to the Minneapolis area office and its agencies. However, the most recent statements available at the time of our audit in September 1953 were for February 1953.

Operating statements which are not distributed immediately after the close of the month are of little value to management or operating personnel at either the Minneapolis area office or its agencies. The various activity supervisors have found it necessary to maintain memorandum records in order to have fiscal information which they consider necessary. In addition, considerable correspondence between Aberdeen and the area offices has been required, resulting in lost time and needless expense.

We recommend that the area accounting office provide the agency offices with all necessary financial information so that the memorandum fiscal records at the agency offices can be eliminated. The failure to prepare and distribute operating statements promptly should be corrected also.

12. Delinquent inventories of fixed properties

Aggressive measures should be taken to reduce the substantial backlog in taking physical inventories of fixed properties and capital equipment at the area office and at each agency office, including tagging of equipment, preparing property cards, and the disposing of obsolete equipment.

On a test-check basis of the property cards that were available, the following deficiencies were noted:

- a. Many cards did not show the cost of the assets.
- b. No amounts were included for freight-in.
- c. No cards showed the activity or branch which had custody of the equipment.

We were informed that the title to land is not verified until such land is to be sold or transferred, and there are no property inventories listing structures, stationary machinery and other improvements thereon. The Indian Affairs Manual (vol. IV, part III, ch. 2) requires this information.

The administrative assistant at the area office stated that the property work is about 12 man-years in arrears. We recommend that prompt attention be given to establish control over fixed properties and capital equipment so as to adequately protect the interests of the Government.

13. Delinquent accounts receivable

During the visit to the Menominee Agency we noted that no attempt was being made to collect delinquent accounts

receivable for agency quarters (tribal owned) and sawmill accounts (credit given to employees, general store, warehouse, garment factory, etc.) except for a bill for collection mailed monthly to the debtor. Eighty-six delinquent quarters accounts in the amount of \$1,994 and 97 delinquent sawmill accounts in the amount of \$12,532 were included in accounts receivable at June 30, 1953. These accounts represented 23 percent of the account receivable balances at June 30, 1953.

The visit to the Red Lake Agency disclosed that 30 fish net accounts receivable at the fisheries enterprise totaling \$1,027 were delinquent over one year. This represents 15 percent of the total number of accounts receivable at the agency. We were informed by the assistant manager that no effort was being made to collect these accounts.

~~Although tribal funds are involved at both agencies, the Bureau of Indian Affairs exercises a trusteeship over these Indian activities. The Bureau should, therefore, carry out this responsibility in a manner similar to that provided by the Indian Affairs Manual (vol. IV, part II, ch. 6, sec. 608.01, F) for amounts due to BIA.~~ The manual states that

"Every reasonable effort must be made to collect delinquent bills."

We recommend that the area office take aggressive action to collect, adjust, or otherwise resolve the numerous delinquent accounts receivable in order to fulfill its responsibility of supervision over the activities of the Indian tribes.